

Operational Review Surplus Property (Material)

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State Sponsor: Department of General Services

Industry: Gordon Hendry, First Vice President, CB Richard Ellis

Industry: Michael E. Thomas, Senior Vice President of Grassroots Issue Management,
McGuireWoods Consulting

Local Government: James D. Campbell, Executive Director, Virginia Association of Counties

Background:

Currently, a core mission of the Department of General Services (DGS) is the collection, distribution, and disposal of state and federal surplus property to all public bodies and other qualifying entities. All organizational assets and resources are 100% dedicated to the management and reutilization and/or disposal of surplus property.

State surplus property disposal/reutilization programs in the Commonwealth are currently managed separately across three broad categories: State, Local, and Higher Education.

	Category	Description
1	State	Departments, divisions, institutions, and agencies of the Commonwealth ("state public bodies"), with DGS responsible for managing procedures and processes for surplus property reutilization and/or disposal in accordance with Code § 2.2-1124 , entitled " <i>Disposition of surplus materials</i> " and implementing regulations in the Agency Procurement and Surplus Property Manual (APSPM), Ch12, entitled State & Federal Surplus Property .
2	Local	Local government public bodies includes cities, towns, counties, local public school systems ("local public bodies"), each manages their own processes and procedures separately, independently from each other and the Commonwealth, to dispose of property they deem surplus to their needs. DGS enabled through legislation to offer services as optional use by local government entities. DGS has successfully worked with Mathews and Orange County Public School systems and others to assist dispose of their property. A summary of cost avoidance as an example for Orange County Public Schools is depicted as an attachment to this report.
3	Level II / III institutions of Higher Education	This category includes nine of fifteen colleges and universities i.e., GMU, JMU, ODU, RU, UVA, VCU, VMI, VPISU, and W&M, which comprise the Virginia Association of State College and University Purchasing Professionals (VASCUPP) . Each institution manages their own processes and procedures separately, independently from each other and the Commonwealth, in accordance with Code of Virginia § 23-38.88 A1, to dispose of property they deem surplus to their needs. All other "Level I" colleges (CNU, LU, NSU, UMW, UVA/CW, VSU), the Community colleges, and Richard Bland College (a 2-year institution), operate under Category One above, at this time.

Notes:

1. For purposes of this report "public body" includes all of the above and collectively means any state or local government legislative, executive or judicial body, agency, office, department, authority, post, commission, committee, institution, board or political subdivision created by law to exercise some sovereign power or to perform some governmental duty. (Code of Virginia § [2.2-4301](#). Definitions)
2. For purposes of this report, the scope does not include acquisition and/or disposal of any surplus materials from the United States government to the Commonwealth, which is governed separately in accordance with Code § [2.2-1123](#) and the Commonwealth's State Plan of Operation with the U.S. General Services Administration.

Best Practices:

In 2006, DGS recognized the need to improve its Surplus property processes, and has managed an across-the-board effort to evaluate and re-engineer these processes using various best practice methods. DGS has achieved numerous operational process changes resulting in substantial cost efficiencies over traditional surplus property methods.

Essentially, DGS successfully has re-engineered its services across three broad service areas, resulting in improved and efficient surplus property business solutions:

- Internet sales
- Live auctions
- Retail sales

Accomplishments:

Internet Sales – A widely recognized best practice, DGS contracted with a private sector nation-wide internet sales provider for surplus property being disposed of through public sale online. Property can be processed at any Commonwealth entities' onsite location via the internet, through a contract with GovDeals, a subsidiary of Liquidity Services, Inc., which also processes federal property for the U.S. GSA program. This is a Commonwealth term contract, established through competitive negotiation.

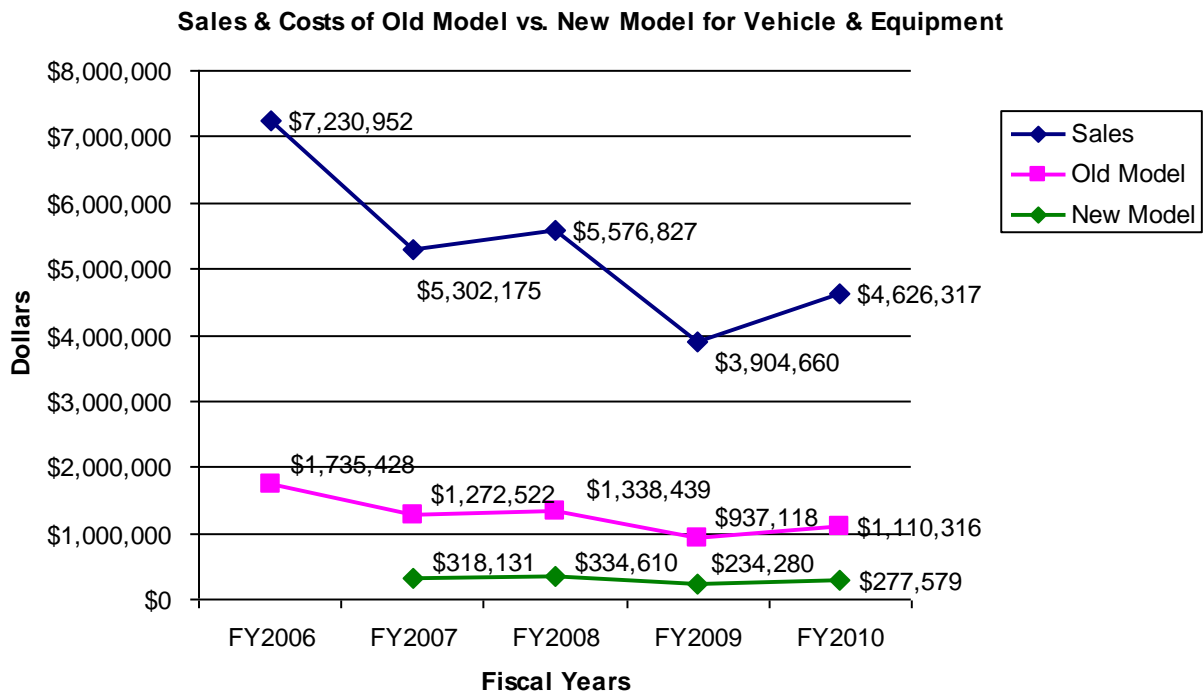
Benefits to date of re-engineered Internet auction processes include:

- Over 10,000 transactions posted in four years
- Products sold "in-place" – avoiding transportation, storage, and handling costs
- Transportation Cost Avoidance estimated at over \$3 million
- Public bodies have sold their property to a far larger buying audience extending beyond local customers, to very highly specialized national & international buyers

Live Auctions – DGS also outsourced its previously held live-auction sales. In a coordinated effort with the Virginia Department of Transportation, Virginia State Police, and others, DGS established a term agreement through competitive negotiation to re-engineer its live auctions through dedicated private sector live-auction service providers. Through this, DGS has been able to take advantage of several strategic contract partnership opportunities with private auction companies. These companies specialize in national and international heavy industrial and commercial equipment and vehicle property disposal services. Companies provide complete turn-key services for heavy equipment and vehicles. Services include vehicle and equipment pickup, transport, storage, security, maintenance, preparation/staging, and combine live-auction and live internet disposal processes, which are aggregated with many other premium customers. All property is offered to a broad national and international client base, which each company maintains.

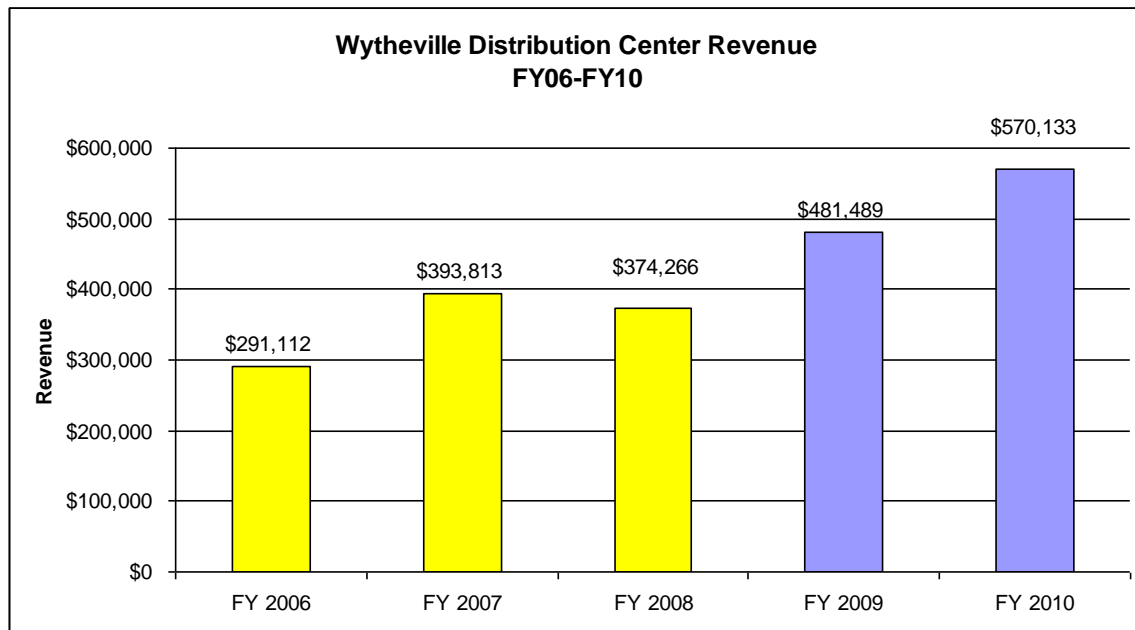
Benefits to date of reengineered outsourced live auctions include:

- Over 10,000 transactions managed by DGS across Commonwealth
- Over \$15.6 MM of Public Body vehicles & equipment sold
- \$ 3.5 million cost avoidance to Public Bodies
- Turnkey solution: contractors pick-up, transport, store, prepare/stage and auction all surplus public body vehicles and heavy equipment
- Contractors have larger, extended audience: National + International buyers
- Greater revenue, faster revenue, timelier sales, plus better transparent reporting
- Eliminates costs and need for public body staff to prepare live auctions e.g., organize, prep property, cashier, etc.



Cost Reduction of New Model (FY07-FY10) = \$3,493,796

Retail Sales Outlet – In FY09 DGS re-engineered a traditional storage “warehouse” model to an updated retail / distribution center for use by both public bodies and citizens. DGS relocated and transformed the warehouse into a retail storefront outlet at the Wythe Plaza Shopping Center in Wytheville, Virginia. This retail outlet has proven hugely popular with public bodies and citizens. Public bodies can screen and acquire property onsite, as can private citizens in Southwest Virginia, who purchase equipment and supplies after local public bodies have had the opportunity to acquire the property. Using this model, the Commonwealth has been able to successfully increase sales and revenues disposing property over any previous methods, with retail sales exceeding \$1.4MM over the FY08-FY10 time period, as illustrated in the following graph.



Note: Yellow columns indicate old warehouse model. FY09-10 retail sales were within \$7,600 of matching total sales for previous 3 fiscal years

Benefits to date of re-engineered distribution center processes

Through the Commonwealth's re-engineered retail / distribution surplus center, numerous benefits have been realized for the Commonwealth and its Public Bodies, as well as by local citizens:

Benefits to Public Bodies include:

- State and local government entities can acquire vehicles, equipment, and supplies at far lower costs than new, to satisfy mission-essential requirements prior to public sale disposal
- Costs are nominal to public bodies (5-10% of original acquisition cost)
- Retail format increased sales, revenues, and improved process throughput
- Retail sales from FY 2008 to FY 2010 have exceeded \$ 1.4 MM
- Increased distribution of Federal/State property to public bodies and qualified non-profits
- Very wide variety of federal property, vehicles, and equipment, with public bodies able to screen federal property themselves
- Warehouses open daily: Monday-Friday
- Reutilization of property is increased with landfill disposal usage is decreased
- Cost avoidance examples are illustrated in the following chart

Name	Description	Acquisition Cost	Service Charge	Cost Avoidance
Agencies				
VPI University	Forklift Hyster	\$18,000	\$2,000	\$16,000
Central Va Training Center	Chairs & File cabinets	\$10,000	\$1,065	\$8,935
SW VA Community College	Furniture & Kitchen equipment	\$4,100	\$600	\$3,500
Localities				
Scott County School Board	John Deere Backhoe	\$77,200	\$5,000	\$72,200
Buchanan County Schools	Utility truck	\$8,500	\$2,850	\$5,650
Russell County	Forklift Hyster	\$10,500	\$1,800	\$8,700
Lee County Schools	School furniture	\$3,800	\$700	\$3,100
Patrick County Schools	School furniture	\$5,200	\$500	\$4,700
Town of Victoria	Playground equipment	\$800	\$100	\$700
City of Danville	Pallet Racks	\$10,000	\$1,050	\$8,950
New Kent County	Fire Equipment	\$15,278	\$525	\$14,753
Virginia Beach	41' boat	\$173,500	\$5,000	\$168,500
City of Winchester	X-Ray machine	\$12,253	\$500	\$11,753
Non-profits/SBA				
Valley Vocational Tech Center	Diesel engine, generator, automotive parts	\$33,800	\$2,520	\$31,280
Charlie Rouse Fire Company	FEMA travel trailer	\$20,000	\$2,500	\$17,500
Massanutten Technical Ctr	Tractor	\$11,400	\$2,350	\$9,050
		\$414,331	\$29,060	\$385,271

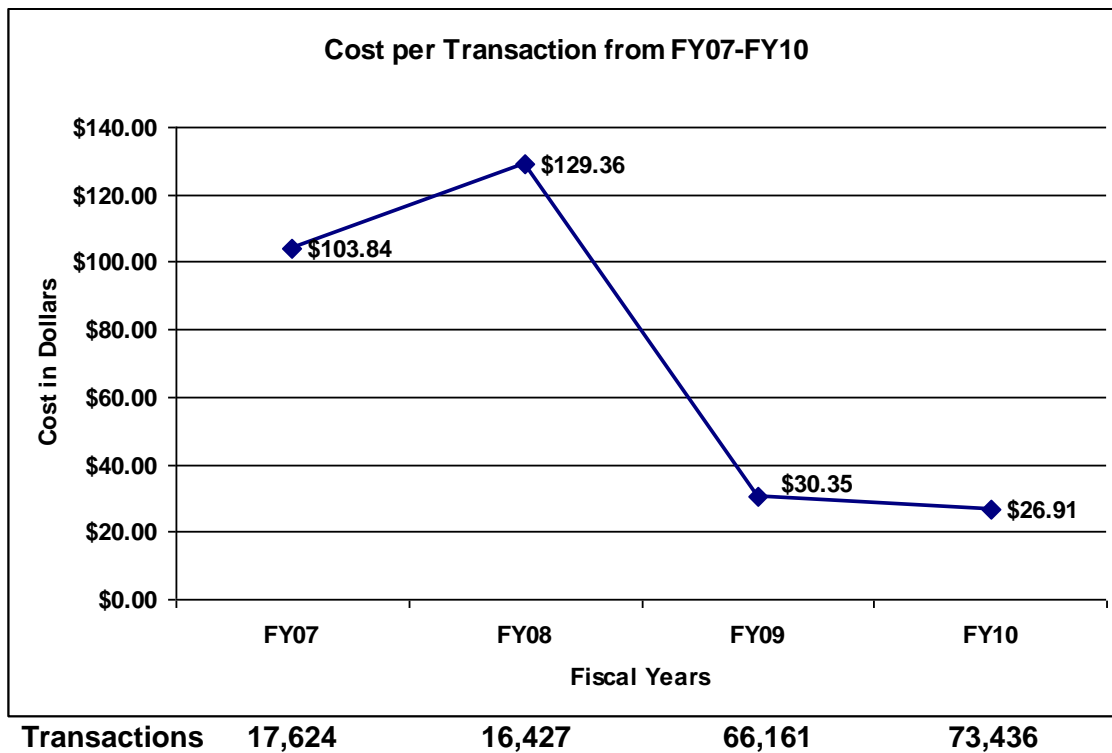
Benefits to citizens include:

- Sales open to the public, Monday to Friday
- Inexpensive source for citizens and small businesses to acquire a large variety of goods and equipment e.g., tools, desks, lamps, chairs, PCs, peripherals, laptops, multi-tools, clothing, TVs, glassware, bookcases, books, filing cabinets, and other materials deemed surplus by public bodies
- Minimization of landfill usage to dispose discarded equipment and materials
- Practical illustration providing knowledge and understanding to citizens of good stewardship and sound management for economization and reutilization of scarce resources and materials by state and local government

The results of these planned strategic contract partnerships have been to realign staff skills and business processes, reduce the size of the organization, and to improve all processes and operations, while improving customer service and responsiveness to both public bodies and citizens.

These process improvements and strategic partnerships have resulted in reducing overall transactional costs, increased sales, and improved resale values, while still providing an opportunity for public bodies to reutilize property deemed surplus by other public bodies, rather than procuring new property.

The historical trend of increased DGS Surplus transactions and reduction of transactional process costs is illustrated below:



Notes:

- Operational Costs include: Labor, Rent, Utilities, Maintenance, DGS Fees, & IT.
- Based on improved re-engineered processes from FY07-FY10, DGS was enabled through attrition to reduce staff handling transactions from 25 to 18.

By changing DGS' operating model to Internet Auctions, Outsourcing Live Auctions, and establishing a retail model, DGS's cumulative enterprise benefits from all changes has resulted in reduced costs and increased productivity:

- Estimated cost avoidance using Outsourced Auctions = \$ 3.5 million
- Customers' shopping surplus obtains property at a fraction of new cost
- Estimated cost avoidance in transportation using internet auctions = \$3.1 million
- Reduced Transaction cost from \$104 in FY07 to \$27 in FY10
- Improved the speed of revenue as a result of more timely sales
- Landfill avoidance of 113,000 items sold in Retail store since FY08

These improved Commonwealth Surplus services are readily shared across the Commonwealth with all state and local government public entities, whose core mission does not include the reutilization and/or disposal of surplus property.

DGS is able to make its infrastructure, processes, services, sales knowledge and technical expertise available to all other public bodies at any time.

Recommendations:

Based on what has already been accomplished, DGS believes that the Commonwealth overall could be achieving the following benefits by using DGS processes, which would enable the following potential benefits to public bodies partnering with DGS:

- Public bodies can better focus on their core mission
- Increased number of bidders/buyers for agency owned surplus property
- Online sales prices normally higher since auction periods are longer than any local auction
- Increased awareness through national/international advertising/marketing at no cost to locality
- Reduce/eliminate property depreciation, and storage costs
- Reduce/eliminate staffing and other resource costs
- No transportation costs to bring property to auction site
- No advertising costs
- Reduce/eliminates possibility for bidder collusion
- Larger online audience that includes international bidders, increasing ability to sell obsolete items
- Generate a new revenue stream for public bodies from surplus property that otherwise would be collecting dust in storage and losing value
- Enable available surplus property to be shared first by other public bodies before being sold to the general public

Given the re-engineered processes the Commonwealth has successfully deployed over the last several years, the resources and assets currently in place, and the potential benefits that exist to assist all state and local government entities in the Commonwealth, the Review Team makes the following recommendations:

A. That the Commission adopt the following language:

The Surplus Property Operational Review Committee recommends that beginning December 1, 2010, the Department of General Services, Office of Surplus Property Management pro-actively offer and make available its services to state agencies, institutions of higher education, local school boards, local government entities and other public bodies, consistent with § 2.2-1124, F. By doing so, it is expected that cost and operational efficiencies, as well as increased sales revenue will be realized by all public entities and DGS collaborating together to leverage existing state public and private surplus property disposal infrastructure and services. This surplus property business model, a partnership between public body resources and outsourced private partners, is designed to limit surplus property disposal costs, limit and manage the limited government resources needed to process surplus property, a required

business process for all entities, and to maximize reutilization and revenue from the sale of surplus property to take advantage of property that might be shared and used by all state and local government entities, prior to disposal.

Further, that the Surplus Property Operational Review Committee recommends that DGS explore, with assistance from other state and local public entities, a state and local government integrated surplus property management “enterprise model” designed to efficiently manage the cost of disposal of surplus property while maximizing surplus property reutilization and sales revenue from the sale of surplus property. DGS should be required to submit a report to the Shared Services Committee no later than October 1, 2011 on the feasibility of a surplus property disposal “enterprise model.”

B. That the Commission resolve that additional efforts and/or study be undertaken

As the study group deems that consideration for the aggregation of all needs is appropriate to avoid unnecessary duplication of efforts, resources and costs by all Commonwealth Public Bodies overall – and in the best interests of the Commonwealth and its citizens – then the following language is recommended by the Committee for approval by the Commission:

- 1) Short-term – That DGS, in collaboration with members of affected entities, develop and implement a plan whereby processes may be combined for the reutilization and/or disposal of equipment deemed surplus to any Commonwealth public body through an automated surplus property management application managed by DGS. Any initiative is to have representation by a member or members from potential beneficiaries or public bodies, which might be affected by such an initiative.
- 2) Long-term – In addition, DGS establish a study group, facilitated by DGS, comprised of a member or members from potential beneficiaries or public bodies that might be affected through the management and/or disposal of surplus property from Public Bodies in the Commonwealth. This study group will collect data e.g., locations of surplus activities, services provided, costs to entities in maintaining operations for surplus property management/disposal, etc. An objective of the group will be to determine and assess – from an “enterprise” perspective – the appropriate balance of processes, roles, responsibilities, and benefits from improvements in efficiency and effectiveness when considering reutilization and/or disposal of property deemed surplus by all public bodies in the Commonwealth. If deemed that assistance from any independent entity may be helpful to complete such a comprehensive “enterprise” study of property deemed surplus by Commonwealth public bodies. If an independent study is needed, then the study group will participate and collaborate in the development of any solicitation scope-of-work used, to assist define the parameters for such an

independent study. Funding may be needed to be appropriated before such an independent study could be initiated.

Attachment

Summary of Orange County Public Schools Transactions using DGS Surplus Model (as of 10/29/10)

1. Increased Revenue

<u>Method</u>	<u>Sales</u>	<u>Commission</u>	<u>Net to seller</u>
DGS Model	\$1765	\$353	\$1412
Orange County Process	\$ 900	\$225	\$ 675
Increased Revenue Using DGS Model	\$ 865		\$ 737

Cost Avoidance Benefit to Orange County Public Schools

1. Labor: Orange County did not have to expend 12 hours of staff time to remove surplus property from Orange County Storage site: @ \$30 per hour = cost avoidance = \$360

2. Space: Orange County Emptied 1,000/SF of facility space that can now be used for office/training/other purposes @ \$10/SF = \$10,000/year

3. Comparison of Orange County live local auction process versus DGS model:

A. Estimated Orange County auction costs:		
- Avoid costs to transport items to central auction location (Estimated 3 days loading/staging property)	=	\$2,160
- Avoid costs for local auctioneer to sell surplus property	=	\$ 225
Total estimated cost avoidance for Orange County to conduct live local auction	=	\$2,385

B. Costs to Orange County using DGS surplus disposal model	= (\$	353)
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Orange County Estimated Cost Avoidance using DGS surplus disposal model	\$2,032
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